

STATE OF LOUISIANA LEGISLATIVE AUDITOR

**Municipal Facilities Revolving Loan Fund
Department of Environmental Quality
State of Louisiana
Baton Rouge, Louisiana**

June 18, 2003



Financial and Compliance Audit Division

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**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2002

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

June 18, 2003

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2002

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May 15, 2003

Independent Auditor's Report
on the Financial Statements

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of Municipal Facilities Revolving Loan Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the financial position and changes in net assets and cash flows of the Municipal Facilities Revolving Loan Fund. These statements are not intended to present fairly the financial position of the State of Louisiana or the Louisiana Department of Environmental Quality, and the changes in net assets and the cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund as of June 30, 2002, and its changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund adopted the provisions of the Government Accounting Standards Board Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, for the year ended June 30, 2002.

LEGISLATIVE AUDITOR

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Audit Report, June 30, 2002

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2003, on our consideration of the Municipal Facilities Revolving Loan Fund's internal control over compliance with certain laws and regulations and our tests of its compliance with those laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 4 through 5 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Grover C. Austin", is written over a light gray circular background.

Grover C. Austin, CPA
First Assistant Legislative Auditor

MRJ:MWB:PEP:ss

[MFRLF02]

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Municipal Facilities Revolving Loan Fund's financial performance presents a narrative overview and analysis of the fund's financial activities for the year ended June 30, 2002. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with prior year information. Please read this information in conjunction with the fund's basic financial statements.

FINANCIAL HIGHLIGHTS

- One loan for \$25 million was awarded to the City of Shreveport during the reporting period.
- Operating revenue decreased from the prior fiscal year. A contributing factor was the drop in the interest rate on state deposits, which fell from a high of 6.03% in fiscal year 2001, to a low of 2.33% at the close of fiscal year 2002.
- The fund has five existing loans with a total face value of \$18,686,968 that are being funded from principal repayments rather than federal capital contributions.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of two sections: *Management's Discussion and Analysis* (this section) and the fund financial statements including the notes to the financial statements.

Financial Statements

The financial statements present information for the fund, as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the fund's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents information showing how the fund's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, certain transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows presents information showing how the fund's cash changed as a result of current year operations. The cash flows statement is prepared using the direct method and includes a reconciliation of operating income (loss) to net assets provided (used) by operating activities as required by GASB 34.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Management's Discussion and Analysis (Concluded)

FINANCIAL ANALYSIS OF THE FUND

Statement of Net Assets

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Current and other assets	\$74,519,335	\$61,356,970
Noncurrent assets	<u>188,302,063</u>	<u>184,956,926</u>
Total assets	262,821,398	246,313,896
Total current liabilities	<u>74,594</u>	<u>62,909</u>
Total net assets - unrestricted	<u><u>\$262,746,804</u></u>	<u><u>\$246,250,987</u></u>

Statement of Revenues, Expenses, and
Changes in Fund Net Assets

	<u>For the Year Ended June 30, 2002</u>	<u>June 30, 2001</u>
Operating revenues	\$7,671,565	\$8,423,545
Operating expenses	<u>890,958</u>	<u>769,956</u>
Operating income	6,780,607	7,653,589
Non-operating expenses	105,288	
Capital contributions	<u>9,603,517</u>	<u>14,818,074</u>
Net increase in net assets	<u><u>\$16,278,836</u></u>	<u><u>\$22,471,663</u></u>

The fund's operating revenues decreased by \$751,980 (or 9%). The total cost of services increased by \$121,002 (or 16%). Changes resulted from increases in loan activity and capital contributions.

**CONTACTING THE MUNICIPAL FACILITIES
REVOLVING LOAN FUND**

The financial report is designed to provide citizens, taxpayers, and customers with a general overview of the Municipal Facilities Revolving Loan Fund's finances and to show the fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sibby Bourgoyne at 225-765-0700 or Margaret Bethea at 225-765-0810 with the Department of Environmental Quality.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Statement of Net Assets, June 30, 2002

ASSETS

Current assets:

Cash in state treasury (note 2)	\$62,074,927
Receivables - due from others (note 3)	1,719,362
Current loans receivable (note 4)	10,725,046
Total current assets	<u>74,519,335</u>

Noncurrent assets -

loans receivable (note 4)	<u>188,302,063</u>
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TOTAL ASSETS	<u><u>\$262,821,398</u></u>
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LIABILITIES

Current liabilities - accounts payable
and accrued expenses

<u>\$74,594</u>

NET ASSETS - Unrestricted	<u>262,746,804</u>
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TOTAL NET ASSETS	<u><u>\$262,746,804</u></u>
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The accompanying notes are an integral part of this statement.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Year Ended June 30, 2002**

OPERATING REVENUES

Interest earned on loans receivable	\$5,761,396
Interest earned on cash in state treasury	<u>1,910,169</u>
Total operating revenues	<u>7,671,565</u>

OPERATING EXPENSES

Administrative expenses	<u>890,958</u>
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OPERATING INCOME

6,780,607

NONOPERATING REVENUES (Expenses)

Interest expense	(348)
Bond issuance costs	<u>(104,940)</u>
Total nonoperating revenues (expenses)	<u>(105,288)</u>

INCOME BEFORE CAPITAL CONTRIBUTIONS

6,675,319

Capital contributions - Environmental Protection Agency

9,603,517

CHANGE IN NET ASSETS

16,278,836

TOTAL NET ASSETS AT BEGINNING OF YEAR (Restated) (note 7)

246,467,968

TOTAL NET ASSETS AT END OF YEAR (note 8)

\$262,746,804

The accompanying notes are an integral part of this statement.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Cash Flows
For the Year Ended June 30, 2002**

Cash flows from operating activities:

Cash received from borrowers	\$15,549,907
Cash received from interest on cash in state treasury	2,003,267
Cash payments to suppliers for goods and services	(99,174)
Cash payments to employees for services	(780,098)
Cash payments to borrowers	<u>(23,912,483)</u>
Net cash provided (used) for operating activities	<u>(7,238,581)</u>

Cash flows from capital and related financing activities:

Capital contributions	9,593,779
Proceeds from sale of bonds	3,000,000
Interest paid on bond maturities	(348)
Principal paid on bonds	(3,000,000)
Bond issuance costs	<u>(104,940)</u>
Net cash provided by capital and related financing activities	<u>9,488,491</u>

Net increase in cash 2,249,910

Cash at beginning of year 59,825,017

Cash at end of year \$62,074,927

**Reconciliation of operating income (loss) to net cash provided
(used) by operating activities:**

Operating income (loss)	\$6,780,607
Changes in assets and liabilities:	
Increase in loans receivable	(14,070,184)
Decrease in due from others and accounts receivable	39,311
Increase in accounts payable and accrued expenses	<u>11,685</u>
Net cash provided (used) by operating activities	<u><u>(\$7,238,581)</u></u>

The accompanying notes are an integral part of this statement.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 2002

INTRODUCTION

The Louisiana Department of Environmental Quality (DEQ) is a department of the State of Louisiana. DEQ was created in accordance with Title 30, Chapter 11 of the Louisiana Revised Statutes of 1950 as a part of the executive branch of government. DEQ is charged with environmental protection within the State of Louisiana.

The Municipal Facilities Revolving Loan Fund (MFRLF) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act). The MFRLF Program presently operates under Louisiana Revised Statutes (R.S.) 30:2078-2088. These statutes establish a state revolving loan fund capitalized by federal grants (Capitalization Grants for State Revolving Funds Program, CFDA 66:458), by state funds when required or available, and by any other funds generated by the operation of the clean water revolving loan fund. DEQ is authorized to engage in activities regarding the sums on deposit in, credited to, or to be received by the state revolving loan fund. The Financial Services, Environmental Technology, and Environmental Evaluation Divisions within DEQ are responsible for the operations of the MFRLF Program in the State of Louisiana. These divisions within DEQ provide assistance to municipalities in the development, financing, and implementation of wastewater treatment management plans and plants. Engineering oversight, design review and inspection services are provided by the Environmental Technology Division; environmental assessment services are provided by the Environmental Evaluation Division; and grant management, program administration and financial services are provided by the Financial Services Division on eligible wastewater treatment projects. All efforts are directed toward improving water quality by assisting communities in providing wastewater treatment processes that meet established effluent limits and achieve the goals of the Clean Water Act.

The MFRLF does not have any full-time employees. However, time spent on the MFRLF program by employees of DEQ is captured and the MFRLF subsequently reimburses DEQ for salaries and benefits as well as other operating expenses of the fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The MFRLF applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

These financial statements include the implementation of GASB Statement Number 34, *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments* and related standards. This new standard provides for significant changes in terminology, recognition of contributions in the Statement of Revenues, Expenses, and Changes in Fund Net Assets, inclusion of a management discussion and analysis as required supplementary information, and other changes.

B. REPORTING ENTITY

GASB Codification Section 2100 establishes criteria for determining the governmental reporting entity and has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements represent activity of a fund of the State of Louisiana that is administered by DEQ, a department within state government. The MFRLF is part of the primary government of the State of Louisiana.

C. FUND ACCOUNTING

For the purposes of this report, the MFRLF uses a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the MFRLF are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the Statement of Net Assets.

The Municipal Facilities Revolving Loan Fund uses the accrual basis of accounting. Revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund's principal ongoing

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

operations. The principal operating revenues of the MFRLF are federal funds and interest earned on loans. Operating expenses include the administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expense.

E. BUDGETS AND BUDGETARY ACCOUNTING

The MFRLF is budgeted annually by the Louisiana Legislature through the Ancillary Appropriations Act. The Ancillary Appropriations Act (Act 32 of the 2001) authorized expenditures of \$45,000,000 for the MFRLF for fiscal year 2001-2002 and allows the fund to retain resources to fund future loans and eligible program activities. Because the fund is an enterprise fund, a budgetary comparison is neither required nor presented in the financial statements.

F. LOANS RECEIVABLE

The MFRLF is operated as a direct loan program. The program provides loans and other financial assistance to municipalities for the purpose of planning, constructing publicly owned treatment works, implementing nonpoint source pollution management programs, and developing and implementing estuary conservation and management plans.

The program lends federal and state monies directly to municipalities. The federal share is 80% and requires a state matching share of 20%. Recycling of principal and interest repayments from borrowing municipalities allows the program to operate in perpetuity thereby benefiting other municipalities wishing to borrow in the future. Borrowers pay principal and interest directly to the loan program, and all monies are deposited directly to the program. Principal repayments can only be used to make additional loans to municipalities. Interest earnings on investments and loans can also be used to make additional loans. In addition, with Environmental Protection Agency (EPA) approval, interest earnings on investments and loans are used to pay off revenue bonds sold to capitalize the program by providing state matching funds.

The loans made by the MFRLF must be made at or below market interest rate with a repayment period not exceeding 20 years plus an interim construction-financing period. The current loan rate is 3.45% interest and .5% administrative fee for new sewer construction/sewer system rehabilitation projects. Several loans have been made at higher interest rates and the program has the ability to change its interest rates as necessary.

As evidence of its obligations to pay principal and interest on the loans, each borrower must have in place or establish a dedicated revenue source for repayment of the loan. Collections of the revenue source dedicated to repayment of the loan must be equal to 133% of the loan amount for sales tax revenues, 125% for sewer user fees or ad valorem taxes, or 100% for general obligation bonds. Each loan recipient is also

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

required to set up a debt service reserve fund equal to one year's principal and interest for the purpose of paying principal and interest should the dedicated revenues be insufficient for that purpose.

Because of the reserve requirements and the absence of any delinquent loans, there is no provision for uncollectible amounts.

G. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses, and contributions of capital. Net assets generally are classified in the following components:

Invested in capital assets, net of related debt - consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted - consists of external constraints placed on net assets used by creditors, grantor, contributors or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - consists of all other net assets that are not included in the other categories previously mentioned.

H. CAPITAL CONTRIBUTIONS

The funds drawn from the EPA capitalization grants authorized by Title VI of the Federal Water Quality Act of 1987 and the state matching funds are recorded as capital contributions.

I. CAPITAL ASSETS

The fund has no capital assets or long-term obligations at June 30, 2002.

**J. COMPENSATED ABSENCES, PENSION
BENEFITS, AND POSTRETIREMENT
HEALTH CARE AND LIFE INSURANCE BENEFITS**

The fund has no full-time employees. The fund pays a portion of the salary of various employees of the Department of Environmental Quality for administrative services. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by the fund.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

K. ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH

As reflected on Statement A, the MFRLF has cash totaling \$62,074,927 at June 30, 2002. All monies of the fund are deposited with the State Treasurer's Office. Cash balances are held and controlled by the state treasurer and are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States are included within the State of Louisiana's financial statements.

3. DUE FROM OTHERS

As shown on Statement A, the MFRLF has a total due from others of \$1,719,362. This is comprised of the following:

Due from state treasury	\$123,883
Due from federal government	62,160
Due from municipalities	<u>1,533,319</u>
Total due from others	<u><u>\$1,719,362</u></u>

The \$1,533,319 due from municipalities is interest due on loans.

4. LOANS RECEIVABLE

The MFRLF makes loans to qualified political subdivisions of the State of Louisiana for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. Effective interest rates on loans vary between 2.45% and 5% and are generally repaid over 20 years starting within one year after the project is completed. Details of loans receivable as of June 30, 2002, are as follows:

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Projects in progress	\$61,459,892
Completed projects	<u>137,567,217</u>
Total loans receivable	<u>\$199,027,109</u>
Long-term receivable portion	<u>\$188,302,063</u>

Loans mature at various intervals through June 1, 2024. The scheduled principal payments on loans maturing in subsequent years are as follows:

Year ending June 30:	Projects in Progress	Completed Projects	Total
2003	\$2,970,000	\$7,755,046	\$10,725,046
2004	4,219,000	7,897,658	12,116,658
2005	4,376,000	8,199,281	12,575,281
2006	4,539,000	8,481,956	13,020,956
2007	4,690,000	8,678,727	13,368,727
Thereafter	40,665,892	96,554,549	137,220,441
Total	<u>\$61,459,892</u>	<u>\$137,567,217</u>	<u>\$199,027,109</u>

Encumbered Balances

Over 55% of cash and undrawn capitalization grants are encumbered as follows:

Funds Encumbered		
1.	Cash and Cash Equivalents	\$62,074,927
2.	Undrawn Capitalization Grants	
	2000 Grant	\$6,220,677
	2001 Grant	<u>14,736,260</u>
	Total Undrawn Grants	<u>20,956,937</u>
3.	Total Cash and Undrawn Grants	<u>\$83,031,864</u>
4.	Loans in Progress - Encumbered	<u>\$45,741,108</u>
5.	Loans (4) as Percentage of Total (3)	55.09%

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

The Loans on Progress-Encumbered represents the projects that are under construction and have only drawn a portion of the total approved loan amount. This figure consists of the principal loaned less the outstanding loan balance less the principal repaid, if any.

Loans to Local Governments

As of June 30, 2002, the MFRLF had made loans to 20 municipalities that, in aggregate, equaled or exceeded \$4.5 million for each municipality. The outstanding balances of these loans represent approximately 88% of the total loans receivable as follows:

<u>Local Government</u>	<u>Authorized Loan Amount</u>	<u>Balance on Loans Outstanding</u>
St. Charles Parish	\$47,300,000	\$40,555,000
Monroe	27,000,000	14,771,624
Shreveport	25,000,000	124,450
Natchitoches	19,169,136	13,143,890
Lafayette	18,400,000	14,628,278
Kenner	12,890,678	9,700,000
Bogalusa	12,500,000	10,894,150
Opelousas	10,000,000	8,289,892
New Iberia	10,000,000	7,782,821
Bossier City	10,000,000	7,696,317
Bastrop	7,500,000	5,690,000
Gonzales	7,500,000	5,545,500
Crowley	7,500,000	3,821,836
Jennings	6,500,000	4,980,000
Rayne	6,450,000	5,180,000
Springhill	6,279,304	4,815,000
Caddo-Bossier Port Commission	6,250,329	4,745,000
Walker	6,900,000	5,378,110
Leesville	4,710,000	3,490,000
Ruston	4,637,282	3,155,000
Total	<u>\$256,486,729</u>	<u>\$174,386,868</u>

**5. REIMBURSEMENTS DUE TO MUNICIPALITIES
FOR CONSTRUCTION**

At June 30, 2002, no approved loan disbursement requests are in process.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

6. LONG-TERM OBLIGATIONS

The MFRLF is allowed by statute to incur indebtedness but not allowed to issue bonds directly. To provide state matching funds when direct cash appropriations were not available, DEQ received approval from the EPA to borrow matching funds. The secretary of DEQ, through a Resolution by Executive Order pursuant to R.S. 30:2078 *et seq.*, was authorized, for state matching purposes, to borrow through the issuance of the department's note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for the department and the state.

The first serial bond issue was called Louisiana Public Facilities Authority Taxable Revenue Bonds (MFRLF Match Project) Series 1995. This indebtedness was secured solely from the pledge of a portion of the revenues received by the department from loans made by the program. The LPFA is a public trust and public corporation organized and existing for the benefit of the State of Louisiana. In accordance with the \$15,000,000 Loan Agreement between the LPFA and the department and in accordance with the \$15,000,000 Indenture of Trust between the LPFA and First National Bank of Commerce, the trustee, the LPFA issued serial bonds for \$15,000,000 and was repaid the \$15,000,000 by June 30, 1999. As of June 30, 2002, a total of \$14,654,221 had been generated for matching fund purposes by the issuance of these serial bonds. The entire bond had been drawn and repaid as of June 30, 2002.

The second serial bond titled Louisiana Public Facilities Authority Revenue Bonds (MFRLF Match Project) Series 2001 was issued during the fiscal year ending June 30, 2002. The Loan Agreement between the LPFA and DEQ was for a total of \$12,000,000 of which \$3,000,000 was issued during this fiscal year. The \$12,000,000 Indenture of Trust was issued between the LPFA and Hancock Bank of Louisiana. As of June 30, 2002, a total of \$2,895,060 was generated for matching fund purposes by the issuance of these serial bonds. The \$3,000,000 of bonds issued were repaid before the end of the fiscal year; therefore, no liability exists at June 30, 2002. Additional issuance from this series may be issued as needed for future state matching purposes.

7. NET ASSETS RESTATED

The beginning net assets as reflected on Statement B has been restated to correct a prior year error and to reflect the implementation of GASB Statement Number 34 and the effects of the change in accounting principle during fiscal year ended June 30, 2002:

Retained earnings, June 30, 2001	
Contributed capital	\$216,471,000
Retained earnings	29,779,987
Correction of prior year error	<u>216,981</u>
Net assets at beginning of year - restated	<u><u>\$246,467,968</u></u>

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

**8. CAPITAL CONTRIBUTIONS,
MATCHING, AND NET ASSETS**

The MFRLF has been awarded 14 federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH) and the Automated Standard Application for Payments (ASAP). These grants are authorized by Title VI of the Federal Water Quality Act of 1987 and require matching funds from the state. As of June 30, 2002, the EPA has awarded grants of \$220,277,868 to the state, of which \$199,320,931 has been drawn for loans and administrative expenses. The state has provided matching funds of \$44,302,867. The following summarizes the grants awarded, amounts drawn on each grant as of June 30, 2002, and balances available for future loans:

<u>Year</u>	<u>Grant Amount</u>	<u>Cumulative Dollars Drawn as of June 30, 2001</u>	<u>Current Fiscal Year Draws</u>	<u>Cumulative Dollars Drawn as of June 30, 2002</u>	<u>Remaining Grant Dollars Available as of June 30, 2002</u>
1988	\$12,000,000	\$12,000,000		\$12,000,000	
1989	10,368,765	10,368,765		10,368,765	
1990	10,725,264	10,725,264		10,725,264	
1991	22,560,714	22,560,714		22,560,714	
1992	21,359,349	21,359,349		21,359,349	
1993	21,129,174	21,129,174		21,129,174	
1994	13,110,372	13,110,372		13,110,372	
1995	13,540,230	13,540,230		13,540,230	
1996	22,179,267	22,179,267		22,179,267	
1997	6,820,400	6,820,400		6,820,400	
1998	22,190,138	22,190,138		22,190,138	
1999	14,804,064	13,731,547	\$1,072,517	14,804,064	
2000	14,753,871	2,194	8,531,000	8,533,194	\$6,220,677
2001	14,736,260				14,736,260
Total	<u>\$220,277,868</u>	<u>\$189,717,414</u>	<u>\$9,603,517</u>	<u>\$199,320,931</u>	<u>\$20,956,937</u>

The state has provided its required matching share of federal grant awards through appropriations of General Fund and state capital outlay appropriations totaling \$23,753,586. Tobacco Settlement monies of \$3,000,000 were deposited in the fund in the 2000 fiscal year. In addition, part of the required matching share has been provided through the issuance of Revenue Match Bonds secured by revenue of the fund. Beginning in fiscal year 1995, revenue bonds of \$15,000,000 were authorized. In fiscal year 2002, another \$12,000,000 in revenue match bonds were authorized. As of June 30, 2002, bonds totaling \$18,000,000 have been issued and repaid resulting in net proceeds of \$17,549,281 being used as state matching funds. Additional matching bonds will be negotiated as needed to cover future capitalization grants. As of June 30, 2002, matching contributions are as follows:

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	Cumulative State Match as of June 30, 2001	2002 Contribution	Cumulative State Match as of June 30, 2002
State cash contribution	\$26,753,586		\$26,753,586
Revenue bond proceeds	14,654,221	\$2,895,060	17,549,281
Total match	<u>\$41,407,807</u>	<u>\$2,895,060</u>	<u>\$44,302,867</u>

<u>Components of Net Assets</u>	<u>Amount</u>
Capital contributions (cash only):	
Environmental Protection Agency	\$199,320,931
State of Louisiana	26,753,586
Total cash contributions	<u>226,074,517</u>
Cumulative loan interest earnings	32,152,548
Cumulative treasury interest earnings	12,109,200
Administrative fee deposit	260,913
Cumulative administrative expenses	(7,399,307)
Cumulative bond costs	<u>(451,067)</u>
Total Net Assets - Unrestricted	<u>\$262,746,804</u>

9. ADMINISTRATIVE EXPENSES

Four percent of the federal grant amounts awarded by the EPA are allocated to fund the administrative cost of operating the revolving loan program. The following schedule presents each grant, the 4% amount allocated from each grant, the cumulative expenses incurred and drawn in administering the program, and the amount available to be drawn from the EPA for future administrative expenses.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

<u>Federal Grant Year</u>	<u>Available 4% Set-Aside</u>	<u>State FY</u>	<u>Expenses Incurred</u>	<u>Available for Administration</u>
1988	\$480,000			\$480,000
1989	414,751	1989	\$1,597	893,154
1990	429,010	1990	11,632	1,310,532
1991	902,429	1991	37,324	2,175,637
1992	854,373	1992	467,804	2,562,206
1993	845,167	1993	529,030	2,878,343
1994	524,415	1994	550,011	2,852,747
1995	541,609	1995	592,169	2,802,187
1996	887,171	1996	596,967	3,092,391
1997	272,816	1997	620,846	2,744,361
1998	887,605	1998	724,915	2,907,051
1999	592,163	1999	840,646	2,658,568
2000	590,155	2000	765,451	2,483,272
		2001	769,956	1,713,316
2001	<u>589,450</u>	2002	<u>996,246</u>	1,306,520
Total	<u><u>\$8,811,114</u></u>		<u><u>\$7,504,594</u></u>	

10. LITIGATION AND CLAIMS

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by legislative appropriation. The MFRLF has no lawsuits outstanding at June 30, 2002.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133**

The following pages contain a report on compliance with requirements applicable to the Capitalization Grants for State Revolving Funds Program and on internal control over compliance with the requirements applicable to the program, as required by *Government Auditing Standards*, issued by the Comptroller General of the United States, and by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



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May 15, 2003

Report on Compliance With Requirements Applicable
to the Capitalization Grants for State Revolving Funds Program
and on Internal Control Over Compliance in Accordance
With OMB Circular A-133

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

Compliance

We have audited the compliance of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to the Capitalization Grants for State Revolving Funds Program (CFDA 66.458) for the year ended June 30, 2002. Compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program is the responsibility of management of the Louisiana Department of Environmental Quality. Our responsibility is to express an opinion on the Municipal Facilities Revolving Loan Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted of the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the Environmental Protection Agency's *Clean Water State Revolving Fund* audit guide. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the program occurred. An audit includes examining, on a test basis, evidence about the Municipal Facilities Revolving Loan Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Municipal Facilities Revolving Loan Fund's compliance with those requirements.

In our opinion, the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund complied, in all material respects, with the requirements referred to previously that are applicable to its Capitalization Grants for State Revolving Funds Program for the year ended June 30, 2002.

LEGISLATIVE AUDITOR

MUNICIPAL FACILITIES REVOLVING LOAN FUND DEPARTMENT OF ENVIRONMENTAL QUALITY STATE OF LOUISIANA

Compliance and Internal Control Report

May 15, 2003

Page 2

Internal Control Over Compliance

Management of the Department of Environmental Quality - Municipal Facilities Revolving Loan Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program. In planning and performing our audit, we considered the Department of Environmental Quality - Municipal Facilities Revolving Loan Fund's internal control over compliance with requirements that could have a direct and material effect on its Capitalization Grants for State Revolving Funds Program (CFDA 66.458), in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to this federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

In connection with our audit, we reviewed the prior audit finding included in our report dated May 14, 2002, for the fiscal year ended June 30, 2001, related to subrecipient audit reports not monitored. That finding has been resolved by management.

This report is intended solely for the information of management of the Department of Environmental Quality and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Grover C. Austin, CPA
First Assistant Legislative Auditor

MRJ:MWB:PEP:ss
[MFRLF02]